



Saipem stake disposal and Q3 results

October 29th 2015

Presentation and Q&A

Presentation

Speakers:

Claudio Descalzi – CEO

Massimo Mondazzi - CFRO

Claudio Descalzi

Good afternoon and welcome to the third quarter results presentation.

Before describing the financial results, I would like to give you a brief update on our strategic progress and take the opportunity to give you more details on the transaction we announced yesterday concerning the sale of a stake in Saipem, a major milestone in our strategic plan .

The strategic plan was based upon three pillars: focus on value growth in upstream, turnaround in mid downstream and value enhancement through portfolio transformation.

We have made rapid progress with each of them delivering significant change to eni to the benefit of our shareholders:

1) Our first pillar is upstream growth, where we improve our 2015 guidance, planning a 9% production increase, almost doubling the original target.

In exploration, in the first 9 months, we have more than doubled our resources target, discovering 1.2 billion boe, at the record level of 60 \$cent per barrel.

On capex, we forecast a reduction of 17%, versus the 14% originally planned. And also for opex per barrel, we improve our target with a reduction of 12%, instead of the planned 7% cut.

2) The second pillar of our strategy is the restructuring of the mid-downstream. These segments generated a robust cash contribution of more than €3.5 billion in the first 9 months.

- Gas and Power, notwithstanding the weak economic performance in the last quarter, is continuing its recovery, and will be close to breakeven in 2015, regardless of any delay in the conclusion of the ongoing arbitration. This is a further improvement to the original guidance;
- R&M and Chemicals are recording their best performance for many years;
- On refining we are reducing our breakeven to around \$5,5 per barrel. Taking advantage of operating efficiencies and improved market conditions, we expect the highest performance in R&M since 2008;
- The result of the Chemicals sector is expected to be the strongest in twenty years, thanks to the ongoing turnaround plan and the focus on specialized products which maximized the upside related to a lower feedstock price;

- Our downstream segment is expected to be overall free cash flow positive in 2015, two years in advance of our plan.

All these actions will contribute to eni achieving coverage of capex from organic cashflow in 2015 at 55\$ per barrel, excluding Saipem.

3) The last pillar is our transformation plan. Yesterday, we announced the most important part of this process: the Saipem stake disposal and deconsolidation.

With this operation we are reinforcing both eni and Saipem:

- Eni, through the disposal of 12,5% and the intercompany debt repayment, will improve the balance sheet and free up resources to support its investment plan.
- While Saipem, with a new and strong shareholder base, will enhance its financial solidity and strengthen the execution of its business plan.

Now I leave the floor to Massimo for further details on the Saipem transaction and the presentation of the Q3 and YTD results.

Massimo Mondazzi

Thank you, Claudio,
and now more details on the Saipem deal.

The overall transaction is structured as follows:

- the sale of 12.5% of Saipem to the Italian Strategic Fund implies a value of around €[400] Million. The sale is coupled with the Shareholders Agreement with FSI representing 25% of total shareholdings with an initial duration of three years. The parties have agreed on:
 - presenting a single list for board members at the Annual General Meeting;
 - stand still and lock-up restrictions on the shares registered in the Shareholders Agreement;
 - having a prior consultation on major strategic board issues, as allowed for by law;
- we have also agreed to participate pro-quota to the subscription of Saipem capital increase, for a value that we estimate at slightly more than €1 billion;
- and finally we agreed the full repayment of Saipem intercompany net debt of €6.1 bn.

As a result of the new governance, Saipem at the completion will be equity accounted for by Eni, and deconsolidated from our balance sheet.

The pro-forma net debt reduction for eni at the end of September, including all above assumptions, is estimated at €5.1 billion.

And now let's move to the third quarter and year to date results.

In E&P, production in Q3 was at 1.703 million boe/d, an 8% increase compared to last year. This growth is thanks:

- to start ups and ramp ups in Venezuela where the giant Perla field started up in July, Angola, the United States and the UK;
- oil price decrease;
- the contribution of Egypt near field discoveries and Libya.

In the first nine months of the year production grew by 9% and considering this strong performance, we upgrade our full year production growth guidance to 9%.

In Exploration we continue to record exceptional results despite lower spending versus 2014 (-30% capex in euro notwithstanding the dollar appreciation): we made the largest ever gas discovery in the Mediterranean with Zohr. This 30 tcf discovery will be developed in a phased fast-track approach and benefit from a competitive cost structure.

Overall in the first nine months we have discovered more than 1.2 billion boe of resources at a UEC of 0,6 \$/boe. This represents substantial progress against our 4 Year Plan target of 2 bn boe of resources and is more than double the target for 2015.

In the third quarter E&P EBIT adjusted was €757 million, down by 76% from last year as a result of lower oil and gas prices only partially offset by a favorable exchange rate, higher production, and lower costs.

In the nine months, EBIT adjusted of €3,2 billion is 66% lower than 2014, due to the same drivers of the quarter, as the E&P performance improvement of €730 million was offset by lower scenario.

Turning to G&P, adjusted EBIT in Q3 was a loss of €469 million mainly driven by:

- the recovery of make-up gas that, whilst benefitting cash generation, determined an increase of supply cost due to higher-priced prepaid volumes;
- a weaker margin in one B2B contract, under negotiation, still oil linked;
- the scenario impact on power and LNG

On a nine months basis G&P recorded a operating loss of 144mln €, representing an improvement of 280 mln € versus last year when retroactive elements are excluded.

Turning to cash, G&P generated almost 2bn € in the first nine months of 2015, with a significant recovery of take or pay of around 600 mln € and of last year's overdue.

Thanks to this performance that confirms the robustness of the turnaround plan, we expect to be close to breakeven notwithstanding the slight delay of the ongoing arbitration beyond 2015.

In R&M and Chemicals it is a record year.

The two segments recorded an overall adjusted EBIT of €335m in Q3, the highest quarter since 2006.

On a 9 month basis, these sectors have recorded a 1.1bn € improvement compared to last year, thanks to the restructuring plan, the optimisation efforts and better scenario.

In terms of cash generation, on a 9 month basis, the sector has generated 1.7bn €, an additional 1.2bn € of cash flow versus the same period last year.

For the full year we confirm positive results in R&M and upgrade our expectations for Chemicals to be positive this year, the best result since eni's IPO.

We now also expect the downstream sector to cover organically its capex this year, ahead of our 4YP assumptions.

And now a short review of our results net of Saipem.

Ebit adj for the group was down 5.3 bn € in the first 9 months. This reduction was driven by 6.1 bn€ related to the weaker scenario, only partially recovered by 800 mln € of performance improvements. This is the result of an improvement of 700 mln € in E&P due to lower exploration, cost efficiency and higher production, and of 400 mln € in the downstream segments, partially reduced by the effect of hedging of 300 mln €.

The 2015 performance is well ahead of the plan we set out in March.

In the nine months, net profit amounted to €0.8 billion, down by 76% y-o-y. The reduction was driven by lower operating profit and a higher consolidated tax rate, which increased to 79,1% excluding Saipem. This increase is driven by the E&P segment that, in the current (weak) oil price scenario, registered a higher tax rate mainly due to the significant weight of exploration and other charges not fiscally deductible.

Let's move to the cash balance, excluding Saipem's contribution. In the first 9 months operating cash flow at 8,4 bn €, fully matched our capex.

For 2015, assuming a price of 55\$/bbl we foresee the organic coverage of capex, an improvement of the original guidance that was targeting cash neutrality before dividend at 63\$/bbl as average between 2015-16.

And now let's start the Q&A session.

Questions and Answers

Corporate participants

Claudio Descalzi - Eni S.p.A, CEO

Massimo Mondazzi - Eni S.p.A, CFRO

Roberto Casula - Eni S.p.A, Chief Development, Operations & Technology Officer

Antonio Vella - Eni S.p.A, Chief Upstream Officer

Daniele Ferrari – Versalis, Chief Executive Officer

Conference call participants

Oswald Clint - Sanford Bernstein, Analyst

Thomas Adolff - Credit Suisse, Analyst

Jon Rigby - UBS, Analyst

Irene Himona - Societe Generale, Analyst

Martijn Rats - Morgan Stanley, Analyst

Massimo Bonisoli - Equita, Analyst

Hamish Clegg - Bank of America, Analyst

Henry Tarr - Goldman Sachs, Analyst

Theepan Jothilingam - Nomura International, Analyst

Biraj Borkhataria - RBC, Analyst

Aneek Haq - Exane, Analyst

Neill Morton - Investec, Analyst

Lydia Rainforth - Barclays, Analyst

Giuseppe Rebuzzini - Fidentis Equities, Analyst

Dario Michi - Banca Akros, Analyst

Rob West - Redburn, Analyst

OPERATOR: (Operator Instructions) Oswald Clint, Sanford Bernstein.

OSWALD CLINT, ANALYST, SANFORD BERNSTEIN: Maybe a question on the production growth, the 5% initial guidance becoming 9% today. And obviously that contingency that was in there. Could you just talk about what that means for your 3.5% CAGR growth over your five-year plan? Obviously if everything keeps going as well as it has this year, it kind of points to that number being potentially quite stronger. Maybe some comments around that please.

And then secondly, obviously we are seeing plenty of evidence I guess of the accelerated startups, but could you talk about the other side, which was the early monetization of the exploration assets, which you have discovered. We haven't seen as much evidence there yet. Could you talk about that please?

CLAUDIO DESCALZI, CEO: I will talk about production moving forward and Massimo will talk about M&A in exploration.

First of all, ...we are in every stage talk about the future and growth about the future is here that this year we add this unconditional potential in the field production and also from exploration in our field. So I think that is the most important contribution like in Egypt and Libya or in Congo or also in Angola.

So I think that is a positive factor. As we look forward to the future, I think it is too early to talk about the guidance. It is clear that in production we are doing better, so our hope is really to be able in 2016 to do better than the 3.5% we announced.

MASSIMO MONDAZZI, CFRO: As far as the early monetization of exploration, what I can say is that some well advanced discussions on this respect are ongoing. So it is something we are fully committed to and our hope is to announce something in the short-term.

But having said that, let me take the opportunity, thanks to your presence, to give you an overview about the full disposal plan that we announced in March. So you remember that we announced EUR8 billion in four years, out of which EUR3 billion expected in 2015. Out of this EUR3 billion now we already achieved EUR1.5 billion, including the remaining disposal of gas share that will happen very soon. So on this regard, we are halfway.

But you remember that launching the EUR8 billion plan we said that Saipem was a contingent plan on top of this. Now what we have done, we made Saipem. So Saipem will allow us early 2016 to catch back something in the range of EUR5.5 billion. So adding up this EUR5.5 billion to the EUR1.5 billion already achieved, we already got EUR7 billion out of EUR8 billion.

On top of this, as I said at the very beginning, we are in advanced negotiation on the early monetization of [this fresh] analysis.

OPERATOR: Thomas Adolff, Credit Suisse.

THOMAS ADOLFF, ANALYST, CREDIT SUISSE: Two questions, please. One on the balance sheet. Now congrats on progress on Saipem. Let's say on a three-year view, you also reduced further your equity stake in Saipem. And you are successful in monetizing the resource space, the discovered resource space and obviously you have over discovered. Which also then reduces your exposure to Sub Saharan Africa. How should I think about the gearing range after you have succeeded in all of those potential monetization? And how should I then think about this balance sheet becoming inefficient and we need to do something about it? And how would you think about capital allocation then?

The second question I guess is going back to Egypt and to the Zohr discovery. You have met with Mr. Netanyahu and I wondered what sort of discussions you are having around the East Med gas development? And whether there are actually any maritime boundary issues around Zohr?

CLAUDIO DESCALZI: I am going to start talking about the Egypt discovery and Massimo will answer about the balance sheet and capital allocation.

For Egypt...the percentages that we have on the capital possibility to put together the huge amount of resources that we have found in the area. I am talking about three countries, so Egypt, Israel and also Cyprus. You know that we are in Cyprus and Egypt. And the theory that the opportunity to have a huge amount of resources and then in the facility and structure and experts at facilities in Egypt can accelerate and improve the time to market all the regions.

And the other point is that we think that we have additional resources first of all. And I think that putting together these discoveries we will be also stronger from a commercial point of view in terms of finding markets and in terms of increasing the value of the resources. So that was mainly the subject of the discussion. And I think that all the three countries are looking at this possibility to use Egyptian additional facilities in a very positive way.

MASSIMO MONDAZZI: To give you a full answer on the new balance sheet structuring, I guess we should wait for the new business plan that is going to be elaborated and will be announced in February, March. But as far as I can today, I would say that our target remain exactly the one that we announced in March, presenting our last strategy plan.

As in anticipation, I would say that the cash coming from Saipem should be first of all to make our balance sheet stronger. Second, definitely to support the development of the additional resources that in the meantime has been discovered. But we need to elaborate the full plan in order to reassess the rank of our projects. Having very well in mind that we don't want to exceed the amount of CapEx that we projected year-by-year in the last strategy plan.

OPERATOR: Jon Rigby, UBS.

JON RIGBY, ANALYST, UBS: It is clearly striking, the progress you have made in the chemicals business. And looking at the plan that you set out just after the year, it was also evident that there was an expectation that there would be significant progress. And it looked a bit backend loaded, and it was a lot to do with really quite a significant transformation of the business.

So the change, certainly the sequential change, 2Q to 3Q in that performance is not obviously explained by the change in the macro conditions, although they have been helpful. But I just wondered whether you were able to talk a little more about what is going on underneath the surface in the chemicals business that has generated this significant improvement?

And then I guess lastly, just as a comment. I think there were some wire stories a couple of weeks ago talking about the potential for a spin-out of that business and I just wondered, A) is there anything in that and B) is it related to this very significant improvement in performance that you are seeing?

CLAUDIO DESCALZI: Yes, you are right. We put a lot of effort in our chemical business. And we transformed the process also in terms of the quality..., the efficiency and the products. So we worked more in the specialties and we brought our specialty in terms of a percentage of more than 65% of our production. And that included.

And it is also true that we pass too often in the past in some good scenario situation, but we always lost money, so that is the first time that after this transformation that did not see anything. We were able to take advantage of the investment that remained.

That is a good period to talk about the future because we know the additional investment. And as you know, we are wanting to focus our investment in the (inaudible) in the upstream. For that reason we are, as we did in the past, we look for partners. Financial partner that can help us and use the value of the investment in the future.

But what has been and what? So the rumors in the press we don't like to make any comment on these rumors, but I fear that there is a process where we are looking for opportunities, to reduce our investments. And clearly if we are able to find some good investors that can (inaudible) our position and enter in a joint venture with us, we will do that.

So Daniele, do you want to add anything?

DANIELE FERRARI, CEO Versalis: I would say Claudio you covered most of the aspect. Jon, I would only remind you in April 2013 we did a seminar on the chemical business. You were among the attendees, so many other people. And I would say that everything that was represented there has been achieved almost a year in advance.

Nearly two years. I would say that the scenario certainly has, but we weren't able to capture this scenario through an informational repositioning. The portfolio transformation and the restructuring was due to this business for many years to come. So that's all I will add here.

CLAUDIO DESCALZI: Just a comment, because we talk about Saipem, we talk about Chemicals and we can improve some other... obviously that are not into our core business. So I think that Eni is a strong opportunity ... because generally what oil companies do is CapEx cutting and cutting.

But what we are doing as well, but I think that the opportunity that Eni has is that can get value, strong value from all these businesses so that we can add an additional research of potentiality to add value and also to be resilient at the lower price. So that is a big opportunity for us. We are falling, we are focusing on that and I think that in the next future I think that we can express additional energy from these transformational actions that we are doing.

OPERATOR: Irene Himona, SG.

IRENE HIMONA, ANALYST, SOCIETE GENERALE: My first question is on gas and power. If you can perhaps remind us, and apologies if you have addressed the issue, if you can remind us of how much you expect to receive in cash this year. How much is then outstanding? And in terms of the P&L, can you quantify what the heat was in Q3 from the negative margin on that?

And my second very quick question, thank you for updating us on disposals. If you can remind us of where we are with the remaining stakes in Snam and Galp please.

CLAUDIO DESCALZI: For what relates to a lot of the third quarter, as Massimo said before, this has been related mainly to two main factors. And the first factor was the recovery of the take or pay. So the prepaid gas that determined an increase of supply costs to give to the fact that this gas was higher priced prepaid.

This is on one side a significant result in terms of cash flow, but also significant result in terms of stabilizing our midstream business. Because basically we have completed the recovery of the take or pay on the most important of our Russian contracts. And this is an activity that was carried out during the last two years and this has significantly reduced our exposure in the rest of the business.

The fact is that we still have some contracts on sales side that are indexed to oil, for which of course, compared to last year quarter, we have been impacted by the change in the Brent price and with the delay typically it is impacting on our contract.

There is also a number of other manufacturers that when put altogether add some insights. These are related to scenario regulatory factors, in general all impacting the power business. For example, we had a different the last year changes in the style for gas transportation, and now our heating, the final user, is our power business. Or we had to absorb increased costs for green certificate of previous years. So all of this made the reason of these substantial changes we have previously heard.

For what we are expecting now from our ongoing negotiation and arbitration, of course, is not something that we can disclose today also because commercial is pretty sensible. I think that we are talking about price review of contracts for the previous years with some of our main contracts, so for which we have quite high expectation of positive results.

MASSIMO MONDAZZI: As far as Galp and Snam, today we own less than 5% in Galp and you may remember that 4% is linked to the exchangeable that is expiring this November. And our intention is to sell off the remaining stake, say as soon as possible.

And as far as Snam, again we are talking an 8% stake in Snam, linked to the exchangeable that expires in January 2016. And the shares are very well in the money.

OPERATOR: Martijn Rats, Morgan Stanley.

MARTIJN RATS, ANALYST, MORGAN STANLEY: I wanted to ask you two things. First of all, with regards to the Zohr discovery. I was wondering what the impact of that would be on the trajectory for capital expenditure? Because on the one hand, it is an attractive discovery. After the Saipem transactions there is additional cash available. I can see how this opportunity could provide upwards pressure on the trajectory for CapEx.

At the same time, there seems to be a below average cost discovery. So I can also see how you would invest in this opportunity at the expense of some other projects. And as the average cost of future capital projects goes down, I can also see how this would actually reduce the trajectory of CapEx, basically through the process of high grading. So I was wondering how you see this project impacting CapEx going forward.

And secondly...the topic of guidance, I was wondering if there are any sort of piece of guidance that you have previously given that might change as a result of the Saipem transaction?

CLAUDIO DESCALZI: I think that you explained very well what is happening. So really the question you gave the answer because it is absolutely what is happening. We have a strong flexibility because we found the resources and research that are very, very local, still over (inaudible), because following our strategy we ran exploration in a place where we have big synergies and where we have a lot of operations. So we have flexibility.

And what you said is right. We can move very easily. CapEx from more accomplished and more costly project to a cheaper or a lower cost project. That is what we have done.

Our target is, as Massimo said before, because we have to cope with a 50 or 55 scenario, is really to stay in our guidance in terms of our CapEx or really if it is possible to improve in any case the new mix project and the new mix of CapEx that is made by faster and better time to market in either term.

So at obviously considering the same amount of CapEx, I think that time that I have determined and the time to market will be much better. I think also the cash on operations will be better.

MARTIJN RATS: And on guidance that might change after the Saipem transaction? I guess there is not much, but I just wanted to cover it anyway.

CLAUDIO DESCALZI: I think that the first question is quite wrong, also the second question because our target is to remain in this range. What we sell last year, the EUR12 million through the year, that was our threshold. And as Massimo already said, that we want to add a very strong branch if we want to have a very low debt because we want to be resilient this time and point with the low scenario.

OPERATOR: Massimo Bonisoli, Equita.

MASSIMO BONISOLI, ANALYST, EQUITA: Congratulations for the Saipem deal. Two questions. Once the deal is done and the capital increase of Saipem completed, could you give us some color on the 18% stake in Saipem, which is not part of the shareholder agreement with FSI? Would we consider the same way of Snam or Galp stake and would you consider some monetization options such as the exchange of both bonds on those shares?

Second question on financial cost per site in the consolidation. What would be the financial cost savings on the 5.1 lower net debt?

CLAUDIO DESCALZI: I answer to the first question and Massimo will answer to the second.

Talking about the 18% that is remaining after this transaction, we are not thinking about that yet. It is clear that is a stronger upside potential, but it will be stronger in the future because of the better scenario and also because of the execution of the Saipem plan that we presented yesterday. So I think that we have in our hands some potential, additional potential.

As you know we have 18% and the 12.5% in the (inaudible) for three years. So I think that is project is a good operation. But at the moment, we don't move because we are still ? because the scenario is dead and also because Saipem starts executing the new plan.

So we are pleased ourselves. We are very happy about that. We think that there is a strong upside potential. And in the future what we can do with this money.

MASSIMO MONDAZZI: And Massimo, as far as our financial costs after the Saipem reconsideration, I would say too early to make it for assessment, because we are collaborating the new plan and decide exactly how to use this money. If we want to replace a bond, then how would we like to utilize this bond. So it's something that we can reflect on when the new business plan would be elaborated.

OPERATOR: Hamish Clegg, Bank of America.

HAMISH CLEGG, ANALYST, BANK OF AMERICA MERRYL LINCH: Delighted about your deleveraging event this week. I just had two questions. First was on the Saipem uncoupling.

I wanted to ask Mr. Mondazzi if he could give us any light on where we could see any interest costs going next year, tax rates and potentially new CapEx. Maybe this is (inaudible) to store up, but it will help us model in the short term.

And the second question was just on Kazakhstan. We all saw the Kazak government trying to fine you this week over Karachaganak. Could you give us a little bit of an update on relations there? And while we are talking Kazakhstan, I assume things are still going ahead nicely at Kashagan as well.

CLAUDIO DESCALZI: Sorry, Hamish. Just to check if I correctly understood, are you asking some clarification about the tax rate? Is this right?

HAMISH CLEGG: Yes, and in a post Saipem world, what is your interest costs, your tax rate and your CapEx?

MASSIMO MONDAZZI: I would say again this kind of guidance as far as the 2016 onwards, I would say it is a bit early to assess, including the financial aspects. Because what we need is to elaborate the full plan in order to see (inaudible) composition or better before utilization of the additional cash we will receive from Saipem. So be back on this question I would say in February 2016.

HAMISH CLEGG: I totally understand. I was going to say, could you maybe elaborate a little bit on whether you would potentially look to restructure your balance sheet as you have quite a high cost of interest? Or at least cost of net interest implied.

MASSIMO MONDAZZI: So again, what we have to decide, depending on the market situation, where we will have this money in our pocket is to see which are the best opportunity. If we would like to buy back some bonds outstanding or whatever. So it is early to say.

CLAUDIO DESCALZI: Antonio Vella will answer about Kazakhstan, (multiple speakers) and I can certainly talk about an update on Kashagan.

ANTONIO VELLA, CHIEF UPSTREAM OFFICER: Let's talk about Karachaganak. The ongoing discussion with the Republic of Kazakhstan and the venture and partners are still normal discussions within our production sharing contract. There are some negotiations ongoing in terms of the audit cost recovery, which is a normal activity within our accounting and adjustment on the activities.

The relationships are okay. And if some discussion is coming out on the audit and cost recovery, it will be resolved as usually mixable with our partners as we have done on the past experience.

Concerning Kashagan, the installation work is progressing quite well. And we are confirming that the installation work will be completed by mid-2016. And production restart in the fourth quarter of 2016.

OPERATOR: Henry Tarr, Goldman Sachs.

HENRY TARR, ANALYST, GOLDMAN SACHS: My first question was just on LNG. How is progress been in attracting buyers to first phase of this project? Has there been any change to the timeline of development there?

And then just secondly, you have revised upwards the OpEx savings that you expect to see this year. Is this being driven by internal cost savings or more by falling third party costs?

CLAUDIO DESCALZI: Talking about the Area 4 offshore Mozambique, Eni, together with its partner, is in the final stage of negotiations for (inaudible) into a binding phase and purchase agreement with BP as the buyer of the production coming from the Corral field. This negotiation is based on key terms that were previously agreed and there is key terms on... the total energy volume produced by the floating LNG unit that we will install on the Coral field.

This negotiation, as I said, is expected to be completed soon and this will be in line with the schedule for the Coral field FID.

Roberto Casula will answer about OpEx production.

ROBERTO CASULA: Well, we are continuing our effort to maximize the efficiency in our operations. At the moment, we do see a unit operating cost of \$7.30 per barrel. Actually this is a combination of operated and un-operated activities. Our operated activities are even much lower in the range of \$6.60 per barrel and this is due to many efforts. Firstly, from the contractual point of view with the renegotiation of all the maintenance contract, logistic contract, chemicals. And also from the asset point of view, we need a lot of effort to reduce the downtime of our installations.

OPERATOR: Theepan Jothilingam, Nomura International.

THEEPAN JOTHILINGAM, ANALYST, NOMURA INTERNATIONAL: Just two questions. Just coming back to E&P. I just wanted to understand what you are seeing in terms of your underlying decline trends in the base. And also if you can just recap what your sort of projected spend is to underpin that decline.

The second question just comes back to the progress you will make in deleveraging... I just wanted to know whether you would consider restarting as a buyback program post the completion of the Saipem transaction.

CLAUDIO DESCALZI: Antonio (Vella) will answer to the first question about fighting the decline.

ANTONIO VELLA: As you know, our strategy is keeping 5% our decline. So we are fighting all these numbers through our continual reservoir modeling and petroleum engineering. Basically since the objective was also to reduce costs OpEx, we directed most of our activity in rigs instead of large and heavy work...And this is still responding on 5%.

CLAUDIO DESCALZI: Theepan, any decision about potential modification on our... return policy will be taken, I would say in February presenting the new strategic plan.

THEEPAN JOTHILINGAM: And could you just remind me how much it costs to maintain that 5% decline rate on the base?

MASSIMO MONDAZZI: We have a part of that cost under production optimization, which are CapEx. As you know, normally we are moving in our budget between EUR2.9 billion to EUR3 billion. And this number is going to be reduced since the strategy went through a rigorous activity in the stage of heavy work over in drilling...

OPERATOR: Biraj Borkhataria, RBC.

BIRAJ BORKHATARIA, ANALYST, RBC: Just a quick follow up on Mozambique. Could you give any color around what level of cost deflation you are seeing in while you go through the EPC tender process?

CLAUDIO DESCALZI: Roberto will answer this question.

ROBERTO CASULA: At the moment we are running several tenders, in particular the ones for the Coral development, which consist, as you certainly know, of floating LNG and the subsea wells. Well, I can tell you that we are very close to select the lowest bid there and we have reached very good results in terms of unit cost per million TPA. In combination with also very good results and signs, means the signs of course, deflation, for all the subsea production systems. So we are very confident that we will have very soon a robust cost estimate for our development.

At the same time, about the onshore development, the tender is ongoing. And so the commercial is out will come in the near future.

OPERATOR: Aneek Haq, Exane.

ANEEK HAQ, ANALYST, EXANE: Just a question for your downstream profitability and cash flows. If my numbers are correct, I think almost 40% of your free cash flow this year is coming from downstream. If we start to see a weaker, let us say refining and chemicals environment next year, what starts to happen when you think about your planning for 2016 to that \$55 breakeven, which obviously you have done very well to get down to this year.

MASSIMO MONDAZZI: As far as the refining, Aneek, maybe you remember that we are working hard to significantly reduce our breakeven cost, the breakeven margin in refining. Today we are in the range of \$5.50 per barrel, so definitely the cash contribution we had in 2015 benefiting from...the scenario as being the one that you have seen in the first nine months of this year. But what you are going to do is to prepare to cope with it, I would say, 100 times higher and we believe that definitely the highest margin we have seen or done.

And what we are doing is to try to reduce even more the \$5.50 versus the, you remember, the \$3.00 per barrel that has been our target we announced when we launched the four-year plan. And I would say that as we are well ahead on this plan in 2015, we still remain absolutely confident that we can get there.

ANEEK HAQ: Can you maybe give me a sense of what we should think about as a more normalized level of cash flow next year then from downstream?

MASSIMO MONDAZZI: Maybe I can give you a more specific idea. So if we see the downstream cash flow regarding the nine months of 2015, I would say that more or less I am mentioning and referring to the EUR1.7 billion regarding the nine months of 2015. I would say that more or less 60% of the increase is related to the scenario. But 40% is related to the, I would say, efficiency, the utilization rate, the full production of the heavy oil treatment plan in Sannazzaro. So a significant part of this increase is not simply related to the scenario.

OPERATOR: Neill Morton, Investec.

NEILL MORTON, ANALYST, INVESTEC: I have two questions please. Firstly in the downstream. You have been making (inaudible) in refining and chemicals for so long, I do wonder whether you have built up significant tax loss carry forward. So basically, as we go forward, what sort of tax rate should we model in refining marketing chemicals as a unit?

And then secondly, a macro question on Libya. You probably know more about the country than most, so I just wondered what you think its prospects are to perhaps increase oil production over the next, say 12 to 18 months. And also what would Eni plans be if the security situation normalizes?

MASSIMO MONDAZZI: As far as the tax rate, due to the fact that the majority of the refining and chemical business are in Italy, the tax rate to project the net income for the future would be the Italian tax rate because we accrued the first tax asset using debt as tax rate. By definition, this is the economic effect, because as far as the cash effect, we will not pay any tax because of the previous losses.

CLAUDIO DESCALZI: Libya, so what we are assessing there is that oil, gas and condensates, especially as regards to the situation, so far is good. And we think that the gas that now is going about 60% for the domestic market is particular at the maximum rate. And our forecast is that it is going to continue at this rate. So and that results a positive signal because when they increased, Libya increased, the gas utilization disposal. So that is positive because it means better working and the situation is not too bad in all different cities. So for gas we are optimistic.

For oil, the projection is not so optimistic because to open facilities we need more maintenance... to ensure that the facility is working operationally at the best. So the projection that remains in our calculation is a (inaudible) now that Eni has not (inaudible) the maximum (inaudible) full potential.

NEILL MORTON: A quick follow-up. Could I perhaps ask perhaps the quantum of those historical tax losses in Italy in the downstream? Are we talking hundreds of millions?

MASSIMO MONDAZZI: I don't have the figure with me. I'll let you know.

OPERATOR: Lydia Rainforth, Barclays.

LYDIA RAINFORTH, ANALYST, BARCLAYS: Just while we are on tax rates, can you talk about what the outlook for the upstream tax rate, because clearly there have been a number of moving parts over the quarters. And then actually, just secondly, just a quick one. The upstream cost savings number. Apologies if I didn't quite get this properly. When you are looking at both the operated cost reductions and the non-operated cost reductions, are they the sort of similar sort of scale of reductions that you are seeing?

MASSIMO MONDAZZI: I'll give you the first about the E&P tax rate. So the E&P tax rate, as far as the quarter, is 110, but as the overall tax rate, please do not refer to the quarter tax rate as a reference point to project the full-year tax rate.

A very quick explanation about the E&P tax rate. The E&P tax rate is significantly affected by the full expenditure of the exploration costs at this level. Because if you remember we, from an accounting point of view, we expensed 100% depreciation costs while I would say the other use the successful (inaudible). It means that we are fully imparting the taxable income without any deferred tax effect because when we drill the well, we don't know exactly the outcome of the exploration activity. So we don't know if at the end of the story we'll get the FID or not. So no, the first tax asset.

Just to give you the sense of this effect, if we apply these successful effort method to the quarter number, 180% become 80%. Having said that, we have another significant effect because of the significant and quick drop in the oil prices happened in the third quarter. The significant and quick drop in prices above \$60 in July, below \$50 afterwards in this quarter, what is causing?

It is causing, I would say, definitely a full effect in revenues, but a delay effect in our production agreement. The effect which in terms of rebalancing in cost profit oil is delayed later on. So when you have this quick effect, you must wait some months in order to have the full rebalancing. That is the reason why to make the long story short, we expect for the full year a guidance that would be very much in line with the guidance we gave in July. If you remember, we said 70%. I am referring to the full group. 70% having in mind a Brent price average above \$60 at the time.

Now, targeting \$55, I would say \$80 has a tax rate average for 80%. 50% for the full-year. And looking forward, as the mechanical adjustment PSA and the better result in non-upstream assets in Italy, this 80% definitely should drop.

CLAUDIO DESCALZI: The second question Roberto will answer.

ROBERTO CASULA: About this further efficiency in the CapEx expenditure. So first of all you know that in 2016 the majority of our CapEx were related to already committed projects, the majority of which were operated. On this project we were able to achieve significant cost savings, thanks to the renegotiation of the contract or retendering of the contract. And thanks also to some reconfiguration of the project. So the majority of the cost saving is related to the operated projects.

OPERATOR: Giuseppe Rebuzzini, Fidentiis.

GIUSEPPE REBUZZINI FIDENTIIS EQUITIES - ANALYST: Coming back to the disposal of the Saipem item to FSI and the shareholders pact, I wonder whether the joint control over of Saipem, which is embedded into this structure, might involve a change of control formally under the Italian law, which might in turn trigger the need for a tender offer over Saipem shares? Could you please comment on this?

CLAUDIO DESCALZI: Definitely we don't think so because what we are following is the same part we follow when we disposed of Snam. But by the way, you have seen probably that the final answer from [Consob] is one of the condition [precedent] to complete the deal.

OPERATOR: Dario Michi, Banca Akros.

DARIO MICHI, ANALYST, BANCA AKROS: The first one is on Saipem, as well. Have you taken any specific commitment to it with FSI on Saipem's dividend policy?

The second one is on Gastera. When do you expect the final outcome of the arbitration?

And the third one is... on the maintenance that's expected for 2016. I am referring to Kashagan... But just to understand correctly, Saipem yesterday stated that the delivery of the project is expected for the end of 2016 while you said that the production is expected for the last quarter of 2015. So I am a bit confused. Could you please help me understand when do you expect the production from Kashagan?

CLAUDIO DESCALZI: Massimo.

MASSIMO MONDAZZI: So definitely no agreement with FSI about the dividend policy of Saipem.

ROBERTO CASULA: (Inaudible) will be we believe within the first quarter of next year.

CLAUDIO DESCALZI: So Kashagan. Don't be confused. Antonio said that we will have a solution at the end of the first half and then production will start in the fourth quarter so that it's confirmed.

OPERATOR: Rob West, Redburn.

ROB WEST, ANALYST, REDBURN: I just wanted to go back and follow-up on Martijn and ...some questions from earlier. You implied that with Zohr the discovery, you are going to try and keep your CapEx around EUR12 billion a year. And so Zohr does compete with something else in the portfolio for capital. My question is are there any other candidates beyond Mozambique for what it can realistically compete with? Is it just totally brash and jumping to a conclusion to think about the logical thing...other options beyond probably selling down your stake there with another party?

And then secondly, Italy is an area that doesn't get much discussion in your upstream portfolio on these calls. I imagine this year it's probably one of the more... cash generative in all the different regions you split and report annually. Is there any change in the way you are running that core upstream Italian business this year versus a typical year, and particularly to maximize the free cash generation from it and maybe spend a little less and work the assets a bit harder?

CLAUDIO DESCALZI: For Zohr and Coral and Italy. First of all, (inaudible) is not something that we are going to spend in a couple of years. It is something that we are going to spend in longer period, because that concerned the full development and also the second phase of development. So it is a long-term, ...not what we are going to spend to put in production ...that will be much less than that.

And on Mozambique, surely we don't find this flexibility on Coral...We find a buyer for (inaudible). We finish the tender procedure and process them so we will be ready for Coral by the end of the year, beginning 2016. While Coral will be functioning December this year.

We have other projects. We have other big projects where we already discussed and we said that we are going to shift improvement out the CapEx. And we talked about Iraq, we talked about Indonesia and we are talking about Venezuela, which was really capital intensive, especially in the second phase.

So we add value to... flexibility and go for smaller and faster and cheaper projects. So it is not a big issue.

I really didn't understand very well your question in Italy because in Italy what we are doing so we are not changing anything. It is nothing. Nothing is changing. Unfortunately, we are continuing watching defensively (inaudible)...and we are looking at the positive... impact. And we are working on, as Antonio said before, on the position of production optimization for ... (inaudible) and the Arctic Sea. That is at the moment.

We have other projects in Sicily that can give a good improvement to the Italian production and that is in the deal we signed last year with the region when we finalized for the transformation to a green refinery. And with the package it is also the development of a gas field in Italy and that is another project that we are going to develop.

So in Italy we try... to improve the new project mainly in gas and some remaining gas offshore. And some projects in for increased production onshore. And that is our program, that is confirmed.

OPERATOR: No more questions, gentlemen.

CLAUDIO DESCALZI: Thank you very much.

OPERATOR: Ladies and gentlemen, the conference is over. Thank you for calling Eni.

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